

MEETING OF THE CALIFORNIA STATE BOARD OF FOOD AND AGRICULTURE

(ALL MEETINGS OPEN TO THE GENERAL PUBLIC)

Location: California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Contact: Helen Lopez
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Meeting minutes for September 28, 2005

Approx. Time	Item No.
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9:00 a.m.	(1) CALL TO ORDER
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- (a) The meeting was called to order on Wednesday, September 28, 2005 at approximately 9:00 a.m. Al Montna, President of the California State Board of Food and Agriculture presiding.
- (b) Welcoming remarks provided by Al Montna.
- (c) Pledge of Allegiance.

(2) **ROLL CALL**

Roll call taken by Helen Lopez, Executive Director. A quorum was present.

Present: Ashley Boren; Drue Brown; Charles Crabb; W.R. "Reg" Gomes; Charlie Hoppin; Marvin Meyers; Niaz Mohamed, Jr.; William Moncovich; Al Montna; Adan Ortega, Jr.;

Absent: Luawanna Hallstrom; William (Bill) Lyons; Craig McNamara; Karen Ross; Ann Bacchetti-Silva

(3) **APPROVAL OF MINUTES – August 31, 2005**

President Montna requested a motion to approve meeting minutes for August 31, 2005 as circulated. The motion was carried by all members.

(4) **OPENING REMARKS AND INTRODUCTION**

Board President Montna thanked speakers for their willingness to travel and make presentations addressing the 2007 Farm Bill at today's meeting. He stated that this is an opportunity to work together to develop meaningful farm policy for California agriculture.

(5) DEPARTMENTAL UPDATES

Undersecretary Yates stated that Secretary Kawamura is in Washington, DC testifying on U.S./Japanese trade issues. Three issues that the Department is dealing with are within the Plant Division regarding a new pest in California called diapaetotics that attacks 270 different plants. Another pest called Citrus Green, which is not in California yet, is being looked at closely in residential areas. Two female medflies have been found in Rancho Cucamonga. A quarantine is being evaluated for that area. The site is being treated. This is all under the preventative release program area.

(6) OPENING REMARKS (Secretary Chrisman and Undersecretary Yates)

The Governor signed SB12 and SB965. These Bills require schools to provide healthy food and beverages in schools. SB281 was also signed which provides \$18.2 million of nutritious fruits and vegetables to school meal programs.

In June the Governor signed an executive order creating the California Partnership for the San Joaquin Valley in order for the State agency secretaries and central valley representatives to meet to develop a strategic plan to address the issues. One of the issues facing the San Joaquin Valley is the unemployment rate has dropped significantly so the labor force has been affected for the fall harvest of crops. Mechanical harvest will be an alternative. The Governor relaxed the Reid Vapor Pressure rules on gasoline to help secure future energy.

The Governor wants to help the agricultural community meet the environmental regulatory challenges and he has directed both Secretary Chrisman and Secretary Kawamura to develop a position in support of the production of agriculture in the state. They are both working on a position paper that should be out shortly.

Secretary Chrisman said he and Secretary Kawamura have encouraged the two agencies to work close together on issues and a Memorandum of Agreement has been issued between the two agencies to focus on the issue of landscape protection, a blending of economic growth, and job protection in a conservancy. The Hirsh Ranch acquisition is a good example of a working landscape with an excess of 80,000 acres.

Secretary Kawamura said he had the opportunity to meet with the United States Senator Mike Johanns. The Senator clearly understands the breadth and depth of the agriculture in California and the importance of conservation efforts. We talked to him about the opportunities in California in the conservation pilot program. There is hope for more program funding for the

conservation easement programs, particularly in the farm land and range land protection program and the grasslands reserve programs. He feels the funding for these programs should be expanded nationally, and California's share should be boosted significantly in order to match the state's investment.

Acreage authorizations must be increased in some of the future farm bills, along with expanded flexibility to allow the easements to be purchased for more than their agricultural value. State funds for restoration or enhancement of easements or other management activities, as well as, the matching funds for easement acquisitions have contributed to this program of restorations of about 90,000 acres of wetlands here in California.

The Conservation Reserve Program is 35 million acres strong nationally, and there is a mere 144,000 here in California. All of the contiguous programs should be allowed and flexible rental rates should be established and the contiguous programs must be allocated adequate acreage insofar as the national total is concerned.

The Technical Assistance Partnership should be broadened to include funded field biologists, foresters, and other resource specialists in tandem with some of the state agencies and cooperating NGO's in this state. Field biologists know how to work with farmers to design wetlands recreation projects and are essential to the program's effectiveness here in California.

It will take a cooperative effort to expand these efforts nationally, to make the case as strong as we can for these dollars to come to California.

Board President Montna thanked Undersecretary Yates and said he is encouraged to see that he is concentrating on land issues. Great benefit can come out of the CSB and for farm viability this is another tool, especially those commodities that exhibit a conservation benefit. He solicited Undersecretary Yates' help to keep the money in the conservation title.

Marvin Meyers asked Undersecretary Yates how he expects to maintain economic growth in the agricultural sector and try and balance with expanded conservation programs. He said that developers are coming in and purchasing agricultural lands, along with a lot of land that is going into conservation easements and wetlands. How is the economic growth maintained in the real time agricultural sector with development and more land out of production? Undersecretary Yates said this is a problem that has always been in California. He said there is an opportunity in the valley to recognize the protection of the agricultural economy and economic base, and in the communities support of the industry, and it needs to be protected. He said we need to get

serious about our efforts and his administration is doing this through good land use ordinances. This gets the local elected officials and local planning officials to recognize the importance of the balance of areas to grow and prosper but to also preserve and protect the agricultural economy.

Charlie Hoppin asked for the Department to be mindful of the projects going forward. The valley is protected by a levee system, and many times when habitats are repaired and bypass areas are planted it inhibits the flow of water.

Drue Brown asked if there was a strategy regarding the amount of funding that will increase. Undersecretary Yates said in terms of the 350 plus crops that are grown in California, a very small portion of them are the program crops that aren't eligible for these commodity programs. We have to make the bigger case for California, given the fact that 50 percent of the land base is in private ownership. He thinks there is great opportunity for the conservation programs, and at the same time enhancing the productive capability of the agriculture greenbelt. Most of the cases we are going to have to make to Congress.

Charles Crabb asked if the decision makers understand the unique combination of climate, soil, water and delivery systems that exist. So much energy is being put into residential areas on the prime agricultural land and avoiding the opportunity to build in areas that aren't as productive. Undersecretary Yates said that Ralph Grossi in the early '70's put together a plan to bring some consistency to the way the communities were to grow over time in a way to protect the valuable productive soil. There are ways for communities to grow and still protect the land base.

Adan Ortega said with the urbanization of Los Angeles an extraordinary amount of costs have been incurred related to complications from the urbanization that was not accounted for as it was happening. He asked if there was any economic analysis of the long-term avoided costs of having working land programs. Undersecretary Yates said there are opportunities for the industry which the Governor and the administration are involved in and realize what role this industry can play in producing the healthy food supply for a growing population. There are difficult choices to make, and a political leadership must be developed to make the difficult choices of how we want this State and valley to grow for all of us.

Ashley Boren said she is struck by how many different interests need to be brought together for California to have a united voice and she asked if there is a plan on how to bring all these different interests together. Undersecretary Yates said this is the reason for the San Joaquin Valley Partnership. It is this kind of cross-

sectional bringing together of diverse groups that will address many of these issues.

(7) UPDATE FARM BILL 2007

Panel 2: Historical Perspective-Farm Bill 2007

Dr. Daniel Sumner, Agricultural Issues Center, University of California

Dr. Sumner spoke to the farm bill history and explained that this is his fifth farm bill. The Farm Bill is a periodic amendment under the 1948-49 Act as permanent legislation and there are a lot of provisions that are not in the 1949 Act and permanent legislation resides in other places. Not included the Farm Bill is much about agricultural legislation that is not in the Farm Bill, for example, the risk management reforms in 2000. There is important agriculture legislation every year and there is ongoing legislation that isn't necessarily scheduled for renewal in 2007. The headline continues to be the commodity program. Different constituencies use the Farm Bill in different ways, and some of them use the fact that it is mandatory legislation and it is going to happen and people attach things to it.

A distinction to make is that the Farm Bill is authorizing legislation and it doesn't necessarily include the appropriations. Another distinction is between mandatory spending and discretionary spending. The major commodity programs are mandatory spending (some are food stamps) and mandatory in the sense that the way they are written, the outlays associated with them turn out to be market conditions or economic conditions. The discretionary spending depends on the appropriations attachment. There may be something in the Farm Bill that is authorized but it doesn't necessarily mean it will happen in terms of the money attached. It is not uncommon for someone to encourage a very strong piece of mandatory spending on something and end up with a discretionary study at the end of the day. And there are some programs that start with a discretionary study and turn into a real program.

In terms of the current Farm Bill, we have started relatively early this time with USDA listing sessions, interest group listing sessions, legislative hearings, and hearings in Washington. The budget is an important issue in the Farm Bill this year. There are big deficits and a lot of people are saying there is not going to be enough money for the Farm Bill, but at the same time there seems to be money there for other things. The economic conditions of agriculture, commodity prices, affect the Farm Bill as it is being written. So what happens to commodity prices between now and 2007 and what are the projections in the fall of 2007 has a big affect on the kind of legislation written. Keep in

mind that the Farm Bill will not be written in 2005 or 2006, but laying the ground work is important.

The trade negotiations is another issue that has been important for the last three or four Farm Bills. Dr. Sumner said he would urge people to watch over the next two or three months where the DOHA WTO negotiations will lead. This will tell us what constraints or opportunities those International negotiations will make on the current Farm Bill.

Dr. Jay Noel, Director, Cal Poly Institute for the Study of Specialty Crops, Cal Poly State University

Dr. Noel stated that there are some in Washington saying that given the economic conditions and the politics that it may be that they will want to extend the 2002 Bill and there may be some pressure to do this. Some of the negotiation pressures may be budget deficits, Doha Round Negotiations and WTO Brazil/U.S. cotton dispute decision, and number of stakeholders.

The CBO August Baseline projection for the U.S. budget deficit has improved over what was projected in March of 2005. However, for the period in which the Bill may be written, there will be budget deficits at approximately \$350 billion. If you add to the CBO Budget Deficit the extension of tax cuts and AMT reform the situation becomes more dire. Unaccounted budget expenses that are not included are the further cost of Iraq War, additional debt service, hurricane relief and rebuilding, and any additional spending under budget reconciliation.

Assuming discretionary spending grows with GDP after 2005 and all expiring tax provisions are extended there will be a growth of interest rate as the debt grows. As the interest rate grows on the debt, it is likely that the U.S. budget deficit will get larger.

Certain programs will be untouchable and spending on Social Security, Medicaid, Medicare, Military and interest are likely to grow, crowding out other government programs including farm legislation. Tax increase is unlikely, and the 2002 Farm Bill program expenditures will be cut before the 2007 Farm Bill and will set the stage for possibly bigger budget cuts in the 2007 Farm Bill.

The House and Senate will go into conference in the next week. They have agreed to cut mandatory programs in 2006 by \$173 million, and \$3 billion over the period of 2006 to 2010, recognizing that the mandatory programs accounts for about 75 percent of total agricultural spending.

Some of the agricultural programs cuts recommended by House Republican Study Committee are conservation, food assistance and nutritional programs, research, Foreign Market Development Program.

The second issue is the Doha Round that addresses the key areas of agriculture, non-agricultural market access, trade in services, implementation issues for Uruguay Round, and trade in intellectual property rights. The Doha Round will be held in Hong Kong in December to try to reach an agreement. There are those who are very optimistic and others who are very pessimistic as to whether they will achieve anything in terms of the agricultural negotiations.

Brazil filed a dispute against the United States cotton program and won their case. This will require some changes to the cotton program, some of which have already been accomplished in terms of the export credit. This case has set a precedent for other nations to come after our farm or commodity programs. If there is not a Doha Round conclusion and if a bill is written next year there is the question of how one would modify these programs, and if a bill isn't written next year and you extend 2002 will it open the door for more disputes.

There are a diverse group of stakeholders involved, such as, commodity producers, both large and small; specialty crop producers, both large and small; agribusinesses; taxpayers; consumers; social welfare activists; environmentalists; and rural communities. Each of these stakeholders have a position, sometimes complementary, sometimes conflicting and they are all talking about their programs and how the program needs to be either augmented or protected.

A map was shown of the districts of current members of the House Agriculture Committee. Another Supreme Court nomination will be coming forward, the White House needs support both on the Senate side and in the mid-term elections in order to maintain control of the House and the Senate. There is the issue of the hurricane and the Iraqi war and what happens is they are under the above pressures, while at the same time when they are trying to write Farm Legislation.

Ralph Grossi, President, American Farmland Trust, National Office & Mid-Atlantic Regional Office

Mr. Grossi said his message to the Board is for the first time in many generations there is a high likelihood that there will be significant reform of Federal Farm Policy. If this occurs, California has much at stake in the re-writing of Farm Policy, and he encourages the Board to get involved early and stay there

until the end. A large congressional delegation in California can have a big impact on the future structure of Farm Policy.

Mr. Grossi feels this is one of those once in a generation opportunities because clearly long-term trends in trade negotiations are pointing us in the new direction for agriculture in a global economy. Some of the domestic programs are inconsistent with the agreements and the WTO actions are a good example of this, but there are other areas in the Farm Programs where there is inconsistency in trade agreements. While the Doha Round is an important next step he would caution everyone that even if Doha is minimally successful, the WTO is still in place and continuing challenges from other nations can be expected.

Other elements of the globalization issue are the movement that is occurring in the European Union. They are moving more quickly toward a different kind of Farm Policy than we are because they are expanding the union and simply cannot afford to support the current levels long-term. Of equal importance is the emergence of the developing nations who have a place at the table now and are using the WTO.

On the budget front, he agrees that budget is going to be a significant pressure, but the political circumstances are unknown in 2007. It is significant that President Bush, in proposing his 2006 budget proposed cutting farm subsidies. He has continued to talk about farm policy reform and Secretary Johanns continues to talk about farm policy reform and it appears that the Administration is serious about a different kind of farm policy.

Another force that is helping to bring about a different kind of Farm Bill is what is termed "transparency". Everyone now knows where the money goes, who gets it and the size of the check by going to the website. This is causing the public at large to question how farm subsidies are being spent and whether or not it is achieving the intended public benefit. It is also causing some consternation within agriculture. There are many places where additional public investment is justified and needed in agriculture today in order to maintain the competitiveness of agriculture in a global economy, and yet the resources are not there. There is the lack of funding at the Federal level to help achieve environmental objectives, the amount of money for research and extension clearly does not meet the needs of agriculture. There are unmet needs within agriculture and these could be legitimately justified for additional public support.

All of these things suggest that some kind of significant change may be on the horizon and, if so, California stands to gain tremendously since California benefits very little from the current farm programs. There is a great opportunity for

California to help re-align public support for agriculture around contemporary values to society and the unmet needs of agriculture. Public support can actually be strengthened and you can show why public dollars should be supporting agriculture.

The American Farmland Trust, a conservation organization that has focused exclusively on conservation programs for the last 25 years, is now talking about farm reform. The likelihood of additional resources to meet some of the conservation objectives is slim unless reform of the programs is part of the package. They held eight facilitated working forums with the farmers. What came out of these meetings were that the farmers liked the flexibility of the farm programs and the concept of the conservation program. There were a lot of things they didn't like, such as, the inefficiency of the programs, the fact that they inhibit innovation, they do not steer agriculture toward market oriented decisions but rather toward thinking about government programs, discourage young farmers from entering agriculture, insufficient funds for conservation and research technical assistance. They were confused and unhappy with the conservation programs; too many different programs and too many different silos of funding that are not well coordinated with state goals and objectives and state conservation agencies.

The needs that came from these workshops included that farmers still want protection on the downside. They want a safety net, particularly those commodity growers who currently benefit from the programs. They were very specific in saying a safety net that does not stimulate production. The farmers believed that the programs themselves are part of the problem because they stimulate over production and sending them into an endless cycle of low commodity prices. Clearly, they want programs that reward stewardship, and nurture new market opportunities.

Concern about globalization came up in a number of ways and mostly as an anxiety about what it means for the individual farmer. Most farmers believe that trade liberalization is good for agriculture and good for American consumers at a macro level, but at a micro level (their farm level) they weren't sure that it was good. This belief was in part due to the fact that we aren't competitive in every crop with every other country in the world and so the question was what can be done to help farmers adjust to transition to different crops because of the affects of global trade agreements.

There was a desire by the farmers to breathe life into regional food systems. There is the emerging demand for local produce, particularly at the high-end of the consumer market today, and there are opportunities for smaller farmers to tap into this high value market. Agriculture is bifurcating into larger and larger farms achieving economies of scale producing commodities, but

also into small niche market, value added market, high value opportunities. There is a concern, however, of what is happening to the farmers in the middle; who are not big enough to capture economies of scale and who don't have the opportunity for value added high-end markets.

There were four or five broad principles that emerged from these discussions; principles that can be used to drive the discussion around the next Farm Bill. One is that the farm policy should encourage market based decisions at the farm level. Secondly, all farms should have equal access to whatever programs are available. Thirdly, farm programs or any kind of payment should be consistent with trade agreements and that future public funding for agriculture should be linked to contemporary priorities.

A broad framework for future policy is being reviewed. Change is coming, and if change is coming what would an alternative support structure look like and can everyone broadly agree on the framework for this. If so, then we can look at transitioning from where we are to where we need to go with the future Farm Policy over one, two or three Farm Bills. A structural framework that addresses the needs that he heard from farmers are: (1) risk management; (2) stewardship of the land; (3) develop new market opportunities for farmers. In addition, the support framework would be around research, extension and technical assistance and market adjustment and transition.

Mr. Grossi cited the following quotes:

"If we gave up 100 percent of subsidies the gains politically and economically would be much greater than what we would lose" ... Charlie Stenholm, co-author of the 2002 Farm Bill.

"I've been in the Unholy Agricultural Alliance for 33 years. I voted for every damned ridiculous agriculture program and subsidy conceived by the demise of man, but I may not anymore." ... Trent Lott, Senator from Mississippi

"Today I reiterate the challenge I've made before. We must work together to eliminate agriculture subsidies and to eliminate tariffs and other barriers to open markets for farmers around the world. Today I broaden the challenge by making this pledge. The United States is ready to eliminate all tariffs, subsidies, and other barriers to free flow of goods and services as other nations do the same." ... George W. Bush, President of the United States

Questions

Board President Montana asked Dr. Sumner if the playing field were truly level can the challenge President Bush made be met? Dr. Sumner said there are two ways to interpret the President's statement. Some feel his statement was easy to make because no one will eliminate all the subsidies all at once. The concern is that he said that for something to hide behind and so then the U.S. will do nothing because he states we will do it if everybody else does it. The highest subsidy rates come from Switzerland, Norway, Japan and Korea.

Dr. Sumner said he is not optimistic about this round, but he does feel they will cobble something together, and may see 50 percent reductions in domestic supports and the U.S. could agree to this because there will be something more than 50 percent reductions on the tariff side. There will be some exceptions to the 50 percent reductions and the U.S. won't sign on unless they cut the rice tariff some and expand access, and the other countries won't sign on unless the U.S. makes some cuts in foreign subsidies.

Board President Montana said he found interesting Dr. Noel's sheet on the 100 Republicans making a bold statement regarding research and it being unaffordable. He asked Dr. Noel his opinion on this matter. Dr. Noel said they threw this out to create some thinking with what they consider to be a very serious deficit situation. They all understand that they have immediate costs that are going to have to be borne, but they would like to try to come up with some mechanisms to offset some of the additional costs, which means cutting programs.

The cut in mandatory programs have been going on for quite some time and just because there are authorizations doesn't necessarily mean there will be appropriations. CSP is a classic example. It was authorized at a certain level and the actual appropriations have been virtually nothing.

Board President Montana asked Mr. Grossi to keep the Board updated on future events. Mr. Grossi said the opportunity for the farm community to partner with some unusual partners in the environmental and nutrition community is greater than it has been in a long time. We don't know what change is going to look like and the best way to deal with that is to be at the table and he encouraged the farm community to be there at the table.

Mr. Ortega asked if there has been any risk assessment or any factor for what agricultural subsidies provide, which is, stabilization of food prices in the United States. Mr. Grossi said one of the purposes of Farm Programs has been to help family farmers stay in business and manage the risk and the variations

in agriculture production. He said we don't yet have a grasp on what it is that agriculture gets for the dollars and the issue of diet and food security and food prices is a debate that is only beginning to get fleshed out. Dr. Sumner said there a lot of things about the Farm Bill that do things within agriculture to the extent that urban people care about family farming, care about agriculture, and care about the rural landscape. In dealing with food stamps or school lunch and related nutrition programs, they are crucial to spending. There are also some unmet needs that not too many dollars in grants can be used, but more attention to encourage better nutrition for Americans. If more resources were devoted to encouraging better diets among people it would have a real pay-off to California agriculture because of what is grown here.

Mr. Ortega asked in terms of risk management, would resources be tracked to mitigate risks associated with the infrastructure of farming. Dr. Sumner said the idea of infrastructure investments as risk management is a great idea, but hasn't been pursued much in the Farm Bill context. Much of this has stayed local and is considered State and not Federal. He emphasized that as part of the USDA (not necessarily Farm Bill but related to Farm Bill) has to do with research and development associated particularly with invasive species. This is a major part of the infrastructure of agriculture and is crucially important in this State.

Dr. Noel in looking at the Farm Bill as a whole, what you have is a whole series of special interests who are trying to get a number of things accomplished. Much of these issues tend to be more short-run in nature. He said what Mr. Ortega is talking about is longer-run and having some vision about where you want to be 10 years from now. There is a saying in Washington that Farm Policy is evolutionary and not revolutionary, meaning it evolves. The list of cuts are in all the program areas that are being advocated (research, infrastructure, nutrition, etc.) and these are the areas that they are looking at to cut and they are all discretionary spending programs. This is where the challenge lies.

Mr. Meyers said as a grassroots farmer and risk taker, he would like to know how growers can stay competitive with situations where their cost of production outstrips the price received for product. How do you control the regulatory requirement and still maintain the safety net to growers on their returns on foreign? Dr. Noel said the regulatory environment is a State issue, other than some of the Federal laws of the EPA. The costs are hard to measure because not every grower recognizes that they are them and trying to quantify them becomes a difficult task. They are adding to the cost of production, but to the extent that it is making California commodities uncompetitive in world

markets, in many cases there is debateability on this issue. In terms of trying to offset some of that, the working land kinds of programs make sense from the perspective that if they were funded and if they were administered correctly, could offset some of the additional regulatory costs that are borne. This is his personal view.

Mr. Grossi said we have to find ways to offset the cost or compensate the landowner who is delivering the social benefit (maintaining the landscape and the wildlife habitat, etc.), and dollars should be shifted to those farmers as reward for providing a social benefit that is not fully accounted for in the marketplace.

Panel 3: FSA/NRCS/Environment

John G. Smythe, State Executive Director, Farm Service Agency.

Mr. Smythe is the State Executive Director of the Farm Service Agency in California which is the agency that administers most Federal Farm Programs at the local level directly to farmers and ranchers in California.

The two most active programs that he administers are the Direct Counter-Cyclical Program and the Price Support Program. These programs affect growers in California who farm cotton, rice, corn, barley, wheat.

Under the Direct Counter-Cyclical Program there are two payment categories. One is a direct payment to producers who participate in this program and the other is a counter-cyclical payment that goes to the participants and is tied to the market for the particular crop that is being participated with, so that if the price goes down below a certain level, a payment kicks in.

Under direct payments for the 2004 crop year, payments totaled about \$176 million to producers in California. Under the counter-cyclical payments for the 2004 crop year the payments were \$150 million. This is a program that will be debated leading up to and during the 2007 Farm Bill. The issues that are most important to the producers in California for these two programs are (1) the restrictions on the planting of fruit and vegetables and (2) is the subject of payment limitation.

Another program getting a lot of activity in California is the Rice Support Programs, again these are programs for the commodity crops. Under these types of programs commodity loans are made to producers that allow for the more orderly marketing of crops. It is a nine month loan that is made right after harvest. Producers repay the loans' principal plus interest unless the world market price for that particular crop happens to be lower

than the loan rate at which point they are allowed to repay it at the world market rate.

One of the other programs falls under the conservation title and is a partnership with NRCS in the delivery of equipment and CRP (Conservation Reserve Program). There is 35 million acres in the Conservation Reserve Program in California. Another program authorized by the Farm Bill comes under the Credit Title and he is responsible for administering farm credit programs that are available to the small family farmers unable to get credit elsewhere. The issues for these programs in California are the low loan limits.

The above programs are authorized under the Farm Bill. FSA has 194 permanent employees. At any given time, FSA is involved in the delivery of sometimes up to 20 or 25 programs in California, many of them are Ad Hoc type programs that are not authorized by the Farm Bill but passed by Congress as the need arises. Crop Disaster Programs are a good example and these programs respond to natural disasters, such as a freeze, flood or drought. FSA also administers an emergency conservation program that responds to natural disasters and an example of this is to restore land damaged by a natural disaster.

Mark Parson, Resource Conservationist for the Natural Resource Conservation Service.

Mr. Parson, stated that he is the Resource Conservationist for the Natural Resource Conservation Service in California. His agency has undergone some changes and Ed Burton is the new State Conservationist, Carlos Suarez is the Deputy State Conservationist, and Luanna Kiger is a specialist. Mr. Parson is speaking for Helen Flacla. NRCS has 419 permanent employees.

Natural Resources Conservation Service, formerly known as Soil Conservation Service, has been a partner in conservation since 1935. They are the nation's leading conservation agency on private land through cooperative partnership and work on a voluntary basis with farmers, ranchers and others.

Farm policy landmarks in the Farm Bills that have taken place are as follows: 1985 was the first Farm Bill that tied benefits to the stewardship concept working with farmers to develop conservation plans, manage erosion on lands where commodity crops were grown. In 1992 there were new easement programs added in and in 1996 the EQUIP program evolved from a number of other additional programs. The 2002 Farm Bill was historical in the federal investment in farm conservation, Grassland Reserve Programs and CSP.

The titles of the 2002 Farm Bill have 10 titles, and two address conservation. Secretary Johanns is hosting a series of sessions around the country now and will be developing recommendations for this important legislation. Public input is essential to this process. Secretary Johanns will be hosting a forum in Oakland, California on October 6.

To quote Secretary Johanns – “The 2007 Farm Bill will affect America’s entire agricultural community, so I believe our entire agricultural community should have a say in the process. I welcome input from across the nation about what is working and what we can do to improve farm policy.

Comments from these sessions span six different issues that were posed by USDA and Secretary Johanns and further information can be obtained on the USDA website (www.usda.gov/documents/fbfcao). While there is much discussion at the sessions there are no preconceived notions by USDA for 2007. This is an open process.

This is likely to be a continuation of the concept that was introduced awhile back on working lands and it stresses the compatible goals of production and conservation. It should fit well with the NRCS vision of a productive land in harmony with a quality environment. Even though new ideas and concepts are being looked at that could be incorporated into the Farm Bill, we need to look back to be sure that we understand what is working and has been working in terms of conservation as supported by existing Farm Bills. Keep in mind that some of these programs are set to expire in 2007 and would need re-authorization.

Mr. Parson outlined a summary of the major conservation programs that NRCS is involved with in California. With the 2002 Farm Bill he saw significant increases for the EQIP program. Most of the programs are administered with contracts or agreements with individual farmers, ranchers and others.

The Wetlands Reserve Program is an easement and wetlands restoration program and the funding level has seen ups and downs. The Wetlands Reserve Program has 90,000 acres that are tied up in easements or restoration agreements in the State of California.

The USDA forum Question #4 asks, how can farm policy best achieve conservation and environmental goals. Comments to this question are taken at the forums, or written or e-mail comments to the Secretary.

Brian Leahy, Executive Director of California Association of Resource Conservation District.

Mr. Leahy said the Resource Conservation District was reformed in 1937. While a national approach is a good idea, if there is not local buy-in, you will not succeed. The idea of creating small units of government throughout the country was formed and the Resource Conservation Districts were reformed in 1937 and in California in 1938. He is still in the process of forming new districts and currently they cover over 85 percent of the State.

The Districts are controlled in California Law, Division 9 of the Public Research Code, and they work with all of the resources of the state (soil conservation, soil quality, water, air, fire safety, bio diversity, wildlife habitat, education, water conservation, education, etc.). Board members will choose which items to tackle and then go after them through grants and volunteers and partnerships.

He wished the Board luck in this very challenging endeavor and asked that as they look at the Farm Bill to remember the local people.

Kathryn Phillips, Manager, California Clean Air Campaign

Kathryn Phillips is with the Environmental Defense which is the national environmental organization founded in 1967. There are 400,000 members nationwide and 30,000 are in California. She manages the Clean Air for Life Campaign and in this role she works on finding solutions to air quality challenges in the San Joaquin Valley. California farmers hold the key to the State's environmental future. Farmers and their actions, more than any single group, will determine whether many of the State's more than 200 imperiled species will return from the brink of extinction. In California 50 percent of the land is in private holding, and 70 to 80 percent of this is held by farmers.

The actions of farmers have a huge impact on whether or not our children and grandchildren will have clean drinkable water today and tomorrow. Farmers and their actions will determine as much as any single group in the San Joaquin Valley whether we will get to a point where we can see the Sierra Peaks more days of the year. In the San Joaquin Valley about 17 percent of the ethyl engine emissions are related to farm equipment. Farmers are being asked to do more to reduce their emissions.

The market does not naturally take into account the value that a farmer provides when he decides to leave a stream bank in tact for habitat or when he decides to replace a diesel engine with a clean one. This is where the Farm Bill and its conservation title come into play. This title can correct for what the market refuses to recognize; those environmental stewardship values.

Most Farm Bill conservation programs are well over subscribed. Nationwide from two thirds to 75 percent of the farmers who apply to participate in the conservation title programs cannot because the appropriations are not there.

Environmental Defense has joined with a number of different organizations around the country, including American Farmland Trust, to try and make the 2007 Farm Bill stronger and better than the 2002 version.

The title can be better by getting more money to fill the demand. In addition, we need to find a way to make the conservation dollars that come to California reflect our need more. The conservation programs need to be designed to take into account the differences between states and regions. Conservation programs that have traditionally funded basic conservation practices and approval of new innovative practice need to flow.

Environmentalists and farmers have been at odds over a lot of issues in the past, but the Farm Bill offers a lot of opportunity for us to find common ground. Together, with the right kind of leadership from the State and Administration, we can have an affect on the Farm Bill in a way that California has not had in the past.

There are key issues we can work together on. One is opportunity; opportunity where we can all find agreement. We need to be proactive and not reactive. Another issue is time; we don't have a lot of time. In terms of specific steps, California has an opportunity to take leadership but it needs to be bipartisan. Put together a delegation of congressional representatives, our entire delegation both urban and rural. Farmers need more technical assistance and it would be helpful to get something through the Farm Bill that will provide more funding for them.

Mr. Meyers complimented Mr. Smythe and Mr. Parsons on the way that their staff is dedicated to reaching out to farmers in the field in assisting them in implementing these programs. Mr. Meyers asked about the funding of EQIP programs. He stated that some are funded by Carl Moyer and some are funded by EQIP, however it seems that they run out of money. He asked what is the tax that the agency would take on increasing the amount of money for the EQIP program.

Mr. Parsons said he can't predict what Ed Burton will decide to do as part of that allocation, but it is his decision to make here in the State of California. Out of the total dollars received from EQIP he will decide how much will go towards air quality. There will be a balanced decision. You can make recommendations to Mr. Burton.

Panel 4: Specialty Crop and Nutrition Titles

Matt McNerney, Executive Vice President, Western Growers Association.

He thanked the Board for the opportunity to speak about issues relative to Federal Farm Policy as it relates to specialty crops, particularly fresh fruits and vegetables. He provided a background on the Specialty Crop Competitiveness Act. The fruit and vegetable, or specialty crop industry, is in a crisis of competitiveness and there are a variety of issues that affect this. The challenges and trends continue and amongst them are continued stagnant export due to lack of access to foreign markets. Heavily subsidized foreign competition, rapidly increasing production costs, the loss of cost-effective crop protection tools, increasing import competitions from growers and nations with minimal regulations, increasing pest and disease problems resulting primarily from the growth of international trade, increasing federal and state regulation, and finally a proliferation of free trade agreements that has not fully provided opportunities to all commodities for expanded fruit and vegetable exports. These factors threaten both the short and long term viability of the California produce industry, which as all of you know, is a major economic sector in California and particularly important in rural communities.

While the economic contribution certainly is important to California, perhaps even more critical is access to fresh, wholesome and safe fruits, vegetables and nuts as an integral part of insuring a healthy diet.

The convergence of economic pressure and the health related benefits has led to western growers and like-minded organizations to advocate for policies on the national level that will recognize the important role that fruits and vegetables play in public health and nutrition, as well as economically. Policies and programs that are tailored to the unique needs of the specialty crop community must be established in some of the key following areas: grant and loan programs, marketing and promotion programs, foreign market access, nutrition, research and extension, pest and disease exclusion and conservation environment.

The Specialty Crop Act hit on block grants which in 2002 provided some over \$60 million to this state that were utilized for a variety of projects and initiatives that were quantified as an outstanding return on that investment. The Act also includes a variety of marketing related activities, foreign market access activities, specialty crop research which is critical, and finally, pest and disease exclusion initiatives.

This is the first step in the Western Growers Association's efforts to more fully address the unique needs of the industry and the Specialty Crop sector has now turned its full attention on the development of the 2007 Farm Bill. While they are still in the developmental stages they are looking at every title within the Farm Bill and are beginning to move forward concepts for consideration and inclusion by the policymakers. Some of these developing concepts are: (1) under the commodity title the industry is extremely focused on planning flexibility which is the fruit and vegetable industry strongly supporting the maintaining of the current restriction that prevent the planting of fruits and vegetables on base acres; (2) payment limitations – the fruit and vegetable industry is evaluating how current Farm Bill payment limitations affect the industry and are exploring recommendations in the areas of direct operating loans, adjusted gross income limits and other payment limits; (3) under the conservation title – environmental quality incentive program QUIP is arguably the most effective and widely used program for the fruit and vegetable producers. Western Growers Association is recommending increased focus on water conservation, pesticide stewardship and air quality as well as seeking additional funds for these programs; (4) the Conservation Security Program – fruit and vegetable producers have been unable to participate in CSP to a significant degree. In an effort to increase its utility and access, Western Growers Association is formulating recommendations to increase the number of eligible water sheds, insure that air quality water conservation and pest management are priorities and increase funding in this area; (5) under international trade -- Western Growers Association is focusing on supporting the continuation of a market access program that has been extremely successful for the fruit and vegetable industry; (6) creation of special funding that could be used by specific U.S. produce groups for targeted economic research needs, such as, evaluating the trade opportunities as well as threats in various countries such as Brazil, China and India; (7) under Invasive Pest and Pest Exclusion – the development of Office of Pest Management Policy must be expanded and supported in an effort to assist the industry in pest management issues; (8) develop an aphs stakeholder advisory committee that would provide for transparency in the process of evaluation; (9) under research – reallocate funding to appropriately and proportionally represent the economic and dietary importance of specialty crops; (10) nutrition title – look at the school fruit and vegetable snack program. This was a pilot program and it has proven to be very effective and popular as a nutrition intervention program proven to increase fresh fruit and vegetable consumption amongst children. It is the goal to increase the program penetration across the country and to do so they will recommend expanding the program and directing the USDA to evaluate its impact and

success; (11) in the area of food stamps, it is vitally important that recipients be provided incentives to choose a diet rich in fruits and vegetables in accordance with the 2005 dietary guidelines. Increased funding for education is needed and will be requested; (12) commodity purchasing – increased support in funding is being encouraged for the USDA purchase of fresh produce through various channels; (13) under nutrition research, it should address barriers to increase consumption of fruits and vegetables and assist in understanding how to drive healthier eating patterns.

In closing, the efforts on the Specialty Crop Bill and the up and coming 2007 Farm Bill are not intended to be at the expense of long-standing and very well proven farm programs. Rather the specialty crop industry and the California fruit and vegetable industry are specifically looking to work collaboratively with any and all interested parties in the development of a national policy that will benefit all U.S. agriculture.

Mr. McNerney said he encourages the Board to continue acknowledging the emergence of the 2007 Farm Bill debate and to the degree that you can engage in this process would be a positive outcome from today's hearing.

John Lagier, Owner, Lagier Ranch, Board Member, California Coalition for Food and Farming.

Mr. Lagier said he is a fourth generation California farmer. His 128 acre farm is located in San Joaquin County. Farmer's transition from organic production started in 1992 and he made the transition in 1997. He grows almonds, cherries, berries, citrus and melons. He is also a value added grower. He has an organic processing facility and manufactures fruit spreads, almond butters, organic almond snacks and fruit pies.

Mr. Lagier is a member of the California Coalition for Food and Farming. As a small farmer that grows specialty crops he has benefited from various programs from previous Farm Bills. He understands the importance of the programs and what they offer. He faces many challenges with foreign competition, consolidation of markets, increasing farmer's markets, energy costs and California specialty crop farmers have been under the gun, so a lot of these programs become very important.

Another situation that he faces is that he is a grower in the middle without the economy of scale to become efficient in a lot of things he is doing. The technical assistance program is very valuable.

Organic health food has experienced growth and is one of the fastest growing sectors in agriculture, however, a University of

California survey showed that only 2 percent of funds go towards personnel and grant projects.

Important programs for funding for the specialty crop grower is EQUIP, SARE, conservation and nutrition program grants. Mr. Lagier said more research is needed and he is encouraging more funding for the programs that are essential for small farmers.

Claudia Reid, Policy Director, California Coalition for Food and Farming

Ms. Reid said her organization is a coalition and John Lagier is a Board member and they work with groups to try to get California to work collaboratively on making change.

Gary Grayson, Chief of the Emergency Food Assistance Program, Department of Social Services

Mr. Grayson said one of the programs he currently administers is the Emergency Food Assistance Program which provides USDA commodities to the food banks around the state. These are distributed through a network of 2,300 distribution sites to low income families and to soup kitchens to feed the homeless. The Food Assistance Program provides over 100 million pounds of USDA commodities annually throughout California.

In addition Mr. Grayson also administers a program called California Donate Don't Dump Program that works with California Farmers and Growers to collect, salvage, sort and distribute to the food banks surplus commodities from California farms and growers.

The Farm Bill re-authorizes several commodity programs including the Emergency Food Assistance Program, the Commodity Supplemental Food Program, the Food Distribution Program on Indian Reservations, the Food Stamp Program, and also the Senior Farmer's Market Program. Collectively, USDA spends \$1.2 billion annually purchasing commodities for these various programs. California receives about 12 percent of the share. Of the \$1.2 billion that is spent nationally, four states get almost 50 percent of the commodities: California, Texas, New York and Florida.

There are two types of money that is encompassed in the Farm Bill; entitlement purchases and bonus purchases. The entitlement purchases are those that are mandated through the Farm Bill allowing each state allocation to be drawn down to purchase the commodities. The bonus commodities that are not charged against the entitlement purchases. Bonuses are typically used to move surplus off the marketplace.

USDA doesn't do a good job of purchasing fruits and vegetables and they have primarily limited themselves to purchasing frozen and canned fruits and vegetables and they use the Department of Defense to actually purchase their fresh fruits and vegetables.

In the 2002 Farm Bill USDA was required to purchase a minimum of \$200 million per year in fruits and vegetables for the school breakfast and lunch program. In addition, they were required to spend a minimum of \$50 million a year on fresh fruits and vegetables that were through the Department of Defense Program. DOD, with the base closures, were looking for a way to maintain their infrastructure and they piloted with California in the mid-90's to provide fresh fruits and vegetables to the schools around the state using their buyer. This has been expanded nationwide.

The Farm Bill also established the fruit and vegetable pilot school snack program and this was later permanently established in the 2004 Child Nutrition and WIC Act. In addition, it established the Senior Farmer's Market Program that allows WIC recipients and seniors the ability to purchase fruits and vegetables at Farmer's Market, and it established the Nutrition Information Pilot Program

The Child Nutrition Re-Authorization Bill was authorized in 2004. This established the Farm to Cafeteria School Garden Program to promote fruits and vegetables and link agricultural producers with school. It also called for more fruits and vegetables in the WIC program in addition to defining specialty crops as fruits, vegetables, nuts, dry fruits and nursery crops.

A registration form for an upcoming forum in Oakland was disseminated. The forum is being held by the Food Nutrition Service Undersecretary Eric Bost on October 6 from 9-12.

Questions

Mr. Ortega asked Mr. Grayson his reaction to the possibility of a bond act that would help farmers meet some of the objectives that have been described here today with regards to land recovery, conservation of water, air resources and at the same time draw the nexus to the nutritional need of the state.

Mr. Grayson said there is much going on in California Legislature in regards to nutrition. A bill was just recently passed called Escutia which deals with improving the nutritional content of lunches in schools and replacing various types of snack foods with fresh fruits and vegetables.

Mr. McNerney said all initiatives can be something positive that everyone can look at, but for the purpose of today's hearing and

more long-term prospect, some of the resources that didn't proportionately come to California historically is where some serious dollars could enhance some of the initiatives that are critical. If we are not cohesive and collaboratively on the same page we will be reflecting back that the 2007 Farm Bill is another Farm Bill of lost opportunities for California.

Ms. Reid said that the initiative process is an intriguing idea, but reminded everyone that the money that funds the Farm Bill is tax money that is sent to Washington, DC and she feels the Federal Government has an obligation to bring this back to California in a fairer way than they have been doing.

Mr. Brown asked Mr. McInerney who he was working with regarding nutrition. Mr. McInerney said the message "We grow the best medicine in the world" is an opportunity for us and as he reflects back that \$1.2 billion are spent on food stamps and the disproportionate amount that are spent on fruits and vegetables is a policy issue. He said we need to engage USDA who look to scientists to recommend dietary guidelines that don't match up with their buying patterns. This is about resources and when you look at the Fortune 500 food companies that we are competing with for children and adults purchasing, we as an industry have a modest initiative called a "Five a Day Program" that is all industry sponsored.

Mr. Meyer asked Mr. McInerney how many dollars are being advocated for the specialty crop sector. Mr. McInerney said the focus right now is on what is the appropriate policies that are important to our industry, rather than going in and saying here is the pie we want it cut in half. We want to come forward with valuable policies and initiatives and depend on those to determine what the appropriate dollar amount would be, so a price has not specifically been set for specialty crops. Looking at existing programs like the feeding programs that have allocated dollars, there could be an initiative to look at those programs to encourage better allocation to fruits and vegetables and other specialty crops that would benefit from recognition for purchases that heretofore haven't been recognized.

Panel 5: Commodity, Energy and Marketing Titles

Earl P. Williams, President/CEO, California Cotton Ginners and Growers Association

Mr. Williams stated the California Cotton Growers Association's membership represents over 97 percent of California's total annual cotton production with approximately 1000 growers statewide.

The California Cotton Ginners Association's membership represents 37 of the 38 ginning organizations in California and its membership operates 64 of the 65 cotton gins operating in California last season.

Both organizations are non-profit industry trade organizations. The two associations share office and staff in Fresno, California and both are charged with representing the cotton industry groups in California.

This year in California some 670,000 acres of cotton have been planted, which represents about 5 percent of the total national planting (14 billion acres nationally). Production is expected to be around 8 percent of the expected nationwide total. California's acreage and total cotton production in terms of bales ranks fifth among 17 other cotton producing states in the nation.

Today less cottonseed is crushed because of increased competition in the vegetable oil market. The vast majority of cotton seed is for dairy feed.

California provides a dependable and consistent supply of cotton for the marketplace. Over the years 80 to 85 percent of all California cotton has been exported to the Far East and Pacific Rim countries, however, today less than 30 percent of US cotton production is processed domestically and 70 plus percent is exported outside of the United States.

During the last five years over 300 textile manufacturing facilities have been closed taking with them 300,000 jobs. California is already exporting a large portion of its annual cotton production, and basically no textile manufacturing is done in California. Everyone should be seriously concerned about a trade policy in this country that would allow this to happen to a national industry segment that has contributed so much to the local economies, but to the national economy as well.

In recent years with the total economic contributions from segments of the cotton industry, from farmer to retailer it is estimated the cotton industry's contribution to the U.S. economies is between \$40 to \$50 billion per year. Cotton contribution to California's economy would be \$2.5 to \$3.5 billion annually. When, and if, the playing field in the world is ever level, California is in the best position of any cotton growing state in the United States to be competitive in the world marketplace.

Today, over 40 percent of California's cotton acreage have caused savings and environmental friendly biotechnology enhancements. Industry improvements and advancements in culture methods and harvesting and ginning, to packaging and

storage and transportation have been readily adopted, and align California's

cotton industry to take competitive advantage of its strategic geographic position in relation to many major world cotton markets.

In addition to all of this, Pima cotton was introduced to California. Today, 85 percent of the total acreage of Pima cotton in the United States is grown with 35 percent of that grown in California. This is a foundation for California's future in cotton production.

The 2007 Farm Bill was summed up well by Secretary Johanns when he said that the writing of the next Farm Bill should not go too far down the road until the trade issues are worked out before the Hong Kong discussions. Trade issues and policies will be paramount in framing the next Farm Bill. Our focus must be when and how an acceptable compliance plan can be implemented, all of which will have an impact on how the 2007 Farm Bill is structured, particularly in these areas.

In Mr. Williams' opinion, from a cotton industry perspective, the 2007 Farm Bill should be a repeat of the same provisions as the past Farm Bill. However, certain provisions have already been declared non-compliant with WTO and will need to be corrected in the next Farm Bill. Secondly, the continued budget pressures in the United States will bring focus on the farm program expenditures. Thirdly, media pressures and public opinions have long been critics of farm policy and have a total lack of understanding and appreciation of agriculture.

Finally, there will be new players at the table, and they are the specialty crop industry and we welcome their participation. We all must realize with their interest in the process either the already shrinking pie gets smaller for all of us, or we all join together for the first time to fight for a larger piece of the pie. We all respect and appreciate each others' needs and approaches to government program benefits and hopefully a viable and workable farm program can be achieved by all. The industry must be united and remain flexible and open to change as the dynamics change. Much can be gained by having all of agriculture in California, as well as in the nation, at the table as we negotiate the 2007 Farm Bill.

Humility, dignity, understanding, respect and appreciation for each other's needs should be the starting point. If we can stand together as friends on the same principles and values at the end of the process, then we will have been successful in moving all of agriculture forward towards a more balanced, stable and sustainable future.

Don Bransford, Chairman, California Rice Commission.

Mr. Bransford farms in Colusa County. California has a diverse agriculture that is valued at nearly \$30 billion annually from 77,000 farms. California should be a barometer of the next Farm Bill debate. This upcoming Farm Bill re-write will be one of the most challenging in recent history. The next Farm Bill will be drafted in a time when the federal government will likely post budget deficits ranging between \$300 to \$500 billion depending on emergency spending needs.

A surge in economic activity and increased tax revenues could narrow the budget gap, but it will be safe to assume that this upcoming Farm Bill will not receive the approximately \$80 billion over ten years in new spending that the 2002 Farm Bill received when surplus spending ruled the day. With this additional spending, the House and Senate Ag Committees were able to provide much needed income safety nets for program crops.

When market prices are strong, government expenditures are reduced facing a surge in deficit spending at a minimum the size of the existing programs will likely shrink. The Bush Administration has publicly announced its goal of cutting the current deficit in half by the time it leaves office in January of 2009. With this goal in mind, USDA is seriously considering authoring its own Farm Bill proposal and sending it to Capitol Hill. This would mark the first time since 1985 that an Administration has submitted its own Farm Bill policy.

Mr. Bransford believes that program reform, such as the elimination of counter cyclical payments, will only take place at the current Doha Round if the WTO reaches a successful conclusion and forces the hand of Congress to overhaul the farm support system.

The consensus between the 148 nation trade block will be daunting. The least developed countries joined by developing countries that have evolved into powerhouse agriculture exporters, like Brazil, are strident in their calls for major reductions, if not elimination of trade distorting subsidies among the big three subsidizers; the EU, the US and Japan.

Conversely, the big three are willing to discuss reductions in exchange for meaningful market access and concrete agreements on non-tariff trade barriers like the irregular use of hydro sanitary barriers whenever U.S. products compose competitive threats to the markets of those countries.

The outcome of the Doha Round is the X factor and is the key variable in determining the makeup of the next Farm Bill. Absent a meaningful Doha agreement, Mr. Bransford believes the current Farm Programs will look remarkably similar, but with a reduced price tag. Even with an agreement, serious doubts arise about the ability of the Bush Administration to pass the agreement through Congress. Support for free trade and the fast track consideration of free trade agreements in both the House and Senate continues to wane.

From a farming perspective, the changing complexion of Congress represents a formidable challenge to Farm Policy. As each census reports, fewer and fewer Americans live on farms and reside in rural areas. This translates into diminishing representation in Congress, specifically in the House of Representatives.

For Farm Bill reauthorization, the respective agricultural committees should be able to draft and pass out each bill with relative ease, but during floor consideration, particularly in the House, a strange marriage of fiscal conservatives along with inner city liberals and modern suburbanites will form a strong faction that will have to be won over on other issues and by the new entrants into the Farm Bill arena.

The California Rice Commission wants to work with the specialty crop industry to build a stronger advocacy base for the 2007 Farm Bill.

There will be new entrants that will have a more antagonistic approach to the Farm Bill rewrite, i.e., environmental and anti-poverty special interest groups, OXFAM, Humane Society, etc. Undoubtedly, these groups will wield their influence over moderate Republicans during the next Farm Bill when it seeks to make animal rights, animal welfare and environmental degradation center plate issues. Therefore, the Chairman and ranking members of each Ag Committee may have to take money out of the Farm Program and put it into other areas, such as nutrition and conservation to appease inner city and suburban constituencies in order to obtain the necessary votes to pass the final Farm Bill.

Mr. Bransford said as a California rice farmer who enjoys wildlife, a rice field where a strong commodity title is, there is a strong conservation program. The flooded rice fields provide vital wetland habitats to over 235 species of wildlife. This is a significant wildlife benefit that results from the cultivation of California's productive rice lands, especially in light of the fact that 95 percent of California's natural wetlands are now gone. Without a strong Farm Bill commodity title supporting the

valuable California rice industry, this environmental benefit would be at risk.

In summary, the 2007 Farm Bill reauthorization faces challenges as diverse as we are, the food and agricultural community has a history of coalescing on issues of importance to the old industry.

Richard Cotta, Senior Vice President, California Dairies Inc.

Mr. Cotta said that dairies are a manufacturing cooperative with 588 member-owners from Marin County to San Diego County. There are five manufacturing plants with a sixth one in the process of construction. California dairies produce 44 million pounds of milk a day with total sales of \$2.2 billion.

California Dairy Industry has a total impact of sales/value of shipments of \$27 billion within the state, and a total economic impact of \$47.4 billion and employ 434,000 people.

Dairy has been one of the smaller CCC recipients in the total outlays. The CCC Net Removal Programs began in 1950. There was a surplus in 1981 and the support price got as high as \$13.25 but has since come down and is at \$9.90 and as the support price has come down the total net removals have also come down.

The dairy share of the total CCC outlays in 1980 were just under 50 percent and in 2002 under 5 percent, and in 2005 the number will be 1 percent or less of the total outlays. CCC gross outlays in the early 1980's were about \$3 billion a year and by 2005 it will close to zero on purchases and outlays. This will give you a sense of where dairy will come from in the next Farm Bill, and that is, they believe they need to have a support price that is reflective of a safety net.

CCC purchase program will buy dairy products at the support price of \$9.90/cwt. California Dairies Inc. has moved into the commercial export market and so far in 2005 they have exported 135 million pounds of various milk powders and by December this number will be in excess of 275 million pounds of product. There are inconsistencies in the world markets that need to be looked at very seriously for the 2007 Farm Bill.

In the next Farm Bill debate dairy will look for the safety net of \$9.90 and will be supported by dairy producers in all 50 states; they will ask for a continuation of the Dairy Export Incentive Program. California Dairies Inc. will not support the continuation of the Milk Income Loss Contract.

Kay Martin, California Energy Cooperative and Vice President of the BIO-Energy Producers Association, BioEnergy Producers Association

Ms. Martin said the 2002 Energy Title has provisions that are diverse with federal procurement requirements for bio-based products to replace petroleum based products, and also has some programs concerned with renewable energy and energy efficiency.

The major thrust of the Energy Title has been to promote the use of ethanol in biomass produced by ranches and farms. To this end, the Energy Title extended the funding under the 2000 Biomass R&D Act and actively promotes the development of biorefineries.

For this particular Title, the Farm Bill has had rather limited benefits for California and has been viewed primarily as a special interest bill that has benefited the mid-west. Part of the problem is not only in the diversity of crops that California produces as opposed to the mid-west, but also the hostile political climate for biofuels since most of the discussion has focused on the use of ethanol as an additive and its use in compliance with the clean air act.

We should care about Title IX in California because of the advantages and benefits of renewable energy for on-site operations in terms of power production and the use of biomass for combined heating and refrigeration. And in the area of new markets, biofuels will have an impact on the future for federal renewable fuel standards and the recent oil security issues and price hikes have ensured that there will be future markets in California for fuels like E85 and bio-diesel. Also important is the value-added markets for existing crops, new crops, crop residues and wastes, as well as new business strategies for mitigation of regulatory issues.

Ms. Martin reviewed various models, i.e., California bioenergy models, and biorefinery models. Bill 801080 will be submitted which will hopefully clear up some of the problems of permitting of gasifiers.

California agriculture could benefit from expanded funding to explore renewable energy options that are suited to their type of agriculture. In addition, California should look at more R&D funding for alternative feedstocks. Production incentives for cellulosic biofuels, expanded grants and loan guarantee programs for biorefinery development, tax incentives and producer credits for small agri-biofuels producers, and integration of Farm Bill with 2005 EPACT would all be factors to benefit California.

Title IX can present an integrated approach to many of the challenges through (1) operational efficiency and cost reduction strategy; (2) market diversification and business development

strategy; (3) rural economic revitalization strategy; (4) environmental mitigation strategy and (5) bridge for economic partnerships across the regions.

Ms. Martin asked members to look at this issue that is five or more years down the line and to keep the energy title in mind.

Board President Montna asked those present how they see the process going.

Mr. Williams said the problems being dealt with today is the compliance issue with WTO Brazil/U.S. cotton dispute and until this is settled things are on hold.

Mr. Bransford said six months ago he would have said Congress is going to move forward, but until the WTO issues are resolved he feels there is potential for extension of the current Bill.

Mr. Cotta agreed with Mr. Bransford. He said three months ago there was a number of people in Congress ready to get started on some serious discussion, but since the hurricane problems he things that the Farm Bill process will be slow.

Questions

Mr. Brown asked if the World Bank's decision to shift to economic equity will further exacerbate the WTO's decision?

Mr. Williams said he is not familiar with the World Banks decision, but he feels the WTO in general exacerbates the issue. He doesn't believe that you can bring 148 members of the world together, some who are undeveloped, others developing and highly developed to reach a fair and balanced trade agreement. The farm policy is very transparent and all over the table and when we get into the room with other countries who don't have a structured foreign policy and we all know they are being subsidized, then we are at a serious disadvantage.

Mr. Grossi said there is no hurry to write a Farm Bill from what he can see in talking to the Committee staff on both the House and Senate side. He said next year they will address some marker bills and probably won't get serious about Farm Bill Hearings until early 2007.

Ms. Phillips said the word she has been getting from Washington has changed weekly. She feels the important thing to remember is if we want to bring more benefit to California we need to get organized. California is a big state and it is going to take awhile to get there. She feels we need to get started now.

Board President Montna challenged this group of speakers to keep the dialogue open and get back together after the first of the

year to build a bridge to work together moving California agriculture forward.

Mr. Bransford said this is a good goal to have but the Congressional delegation is as diverse as the commodities we grow in the state and how we get those people together, and if you could, you would be very formidable. The reality is that the process is driven at the national level, and for respective states to break off sometimes puts people at risk. Board President Montana said it would be incumbent on this Board to try to help get this accomplished.

Ms. Boren thanked Board President Montana for putting these panels together. She said because there is such a diversity of interests it is not clear to her how to attempt to consolidate these into at least one voice on the issue where we do have common ground. She asked if there is a role that this Board can play in trying to encourage this? Board President Montana said he has three volunteers (Charlie Crabb, Charlie Hoppin and Marvin Meyers) who will put together a resolution and bring it back to the Board. He would also like the resolution circulated to the Panel speakers.

Board President Montana asked Mr. Gallagher if the Farm Bill is important to the California banking industry, and if so, how? Mr. Gallagher said what the banking industry is looking for is a globally competitive, sustainable industry that they can finance. He has seen some processes that have worked and the best concept is the increase of collaborative research on very focused issues that have to do with the future success and competitiveness of U.S. agriculture in a global marketplace. He said there is the concept of industry, the concept of research, the concept of extension, and the concept of regulatory enforcement and when you look at areas where it is needed it is air and water quality, market and trade development and the concept of a strategic assessment process.

Mr. Gallagher suggested that one of the things that should be added is the strategic assessment process, both at the family and county regional level, for the support for the change and transition process. He encourages collaborative research of trade development and market development, along with strategic assessment support.

(8) COMMENTS FROM THE PUBLIC

There were no comments from the public.

(9) CLOSING COMMENTS AND ADJOURNMENT

Board President Montna said, on a different issue, the Avian Flu issue has the possibility of being huge for our poultry industry and for the health and safety of our citizens, that this virus is highly contagious and spreads rapidly. The concern is that in Asia there is a very bad form of Avian influenza that is epidemic at this point. This is a virus that changes as it spreads so the longer it is in a big population, and right now it is in birds, so the more likely it can mutate and change and jump from species to species.

The real fear is it will mutate so it can affect humans, which it has done and is very lethal in humans and the fear on top of this is it will change so that it can spread from human to human.

What is being seen in Asia is it is spreading from one species to another which is an indication that some changes are happening. They are seeing it spread from ducks or geese into commercial poultry and then back into the wild populations and they carry the virus to a new location. There is some suggestion that in some of the areas it can spread into the flyways and could potentially spread into the western part of the United States.

She is collaborating in a national and state level with several universities and they are looking at wild birds and are in close contact with counterparts in Alaska.

She sees a couple different threats currently to California. One, is the perception and the fear so we need to continue to work with the Health Department to educate the public about what are the real risks and what are the perceived risks and what can be done. And the other threat is it coming in through wild birds and barriers are being created between wild birds and the domesticated birds. They are also looking at early detection and increasing surveillance and risk based surveillance. This is a collaborative effort of State, Federal, local industry. There will be scientists from several different areas, including UC Davis, testing for the disease in wild birds here in California.

The other threat is it coming in accidentally, or intentionally being transported from Asia. There are a couple of issues with vaccine for poultry. Improper vaccination in Asia may have actually contributed to this genetic shift and mutation of the virus. Because this is a virus that changes a lot you need to be very careful when you vaccinate for it and so there is no perfect vaccine.

Mr. Ortega said that the state has done a wonderful job in the last few years on West Nile Virus. They took every opportunity to inform the public about the nature of the virus, what to do to prevent it and so forth. His concern is that this is getting more and more into the news media and the sooner we have some sort

of a public information clearing house that allows reporters and others who want factual data to find out about what is being done, the better we will be. Also, it would be helpful to educate people on the proper handling and maintenance of your birds, and who to call if your bird dies suddenly.

Secretary Lyons will be stepping down from the Board and Board President Montna asked for a motion to allow the Resolution Committee to construct a resolution for Secretary Lyons to be presented to him at the next Board meeting; it was moved and seconded and the motion carried unanimously.

Board President Montna said he would like a discussion about the California Delegation at the next Board meeting.

With no further business to conduct or actions to report, the meeting adjourned at 3:05 p.m.